



ORIGINAL

MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

DATE: November 2, 2007

RE: STAFF REPORT FOR KEATON DEVELOPMENT COMPANY – APPLICATION  
FOR EXTENSION OF CERTIFICATE OF CONVENIENCE AND NECESSITY  
FOR WATER SERVICE (DOCKET NO. W-02169A-07-0098)

Attached is the Staff Report for Keaton Development Company's application for extension of its existing Certificate of Convenience and Necessity for water service. Staff is recommending denial and also offering an alternative for approval with conditions.

EGJ:BNC:tdp

Originator: Blessing Chukwu

Arizona Corporation Commission  
DOCKETED

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AZ CORP COMMISSION  
DOCKET CONTROL

Service List for: Keaton Development Company  
Docket No. W-02169A-07-0098

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STAFF REPORT  
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ARIZONA CORPORATION COMMISSION

KEATON DEVELOPMENT COMPANY

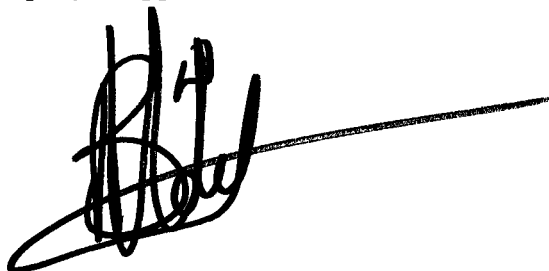
DOCKET NO. W-02169A-07-0098

APPLICATION FOR EXTENSION  
OF EXISTING CERTIFICATE OF  
CONVENIENCE AND NECESSITY

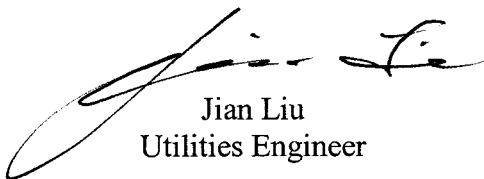
NOVEMBER 2, 2007

## STAFF ACKNOWLEDGMENT

The Staff Report for Keaton Development Company (Docket No. W-02169A-07-0098) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis.

A stylized, handwritten signature in black ink, featuring a large, looped initial 'B' and a long, horizontal stroke extending to the right.

Blessing Chukwu  
Executive Consultant

A handwritten signature in black ink, appearing to read 'Jian Liu' in a cursive, flowing script.

Jian Liu  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**KEATON DEVELOPMENT COMPANY**  
**DOCKET NO. W-02169A-07-0098**

On February 13, 2007, Keaton Development Company ("KDC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in La Paz County, Arizona. On September 28, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C.").

By this application, KDC is seeking Commission authority to add approximately 62 acres to the Company's existing certificated area of approximately three square miles. The requested area consists of two developments, namely: Sunshine Acres and Salome Heights. The two developments are contiguous and are owned by Dan and Mary Lou Cox.<sup>1</sup> Sunshine Acres is a 37-acre parcel, consists of 37 lots, and is located north of Salome Height. While, Salome Heights is a 25-acre parcel and consists of 29 lots. Altogether, these developments will have a total of approximately 66 residential units. The developments are located approximately one-half mile east of the Company's existing certificated area.

Based on Staff's review and analysis of the application, Staff believes the existing and proposed water systems have adequate well production and storage capacity to serve the existing and proposed development with 66 residential units.

Staff recommends the Commission deny KDC's application for extension of its CC&N to provide water service within portions of La Paz County, Arizona. The Company is out of compliance with the rules and regulations of Arizona Department of Environmental Quality ("ADEQ") regarding monitoring and reporting. Staff believes it is not in the public interest to grant the relief requested until KDC is in compliance with ADEQ. The Company should file a new application once it is in compliance with ADEQ.

However, Staff will reconsider its recommendation if, by the date of the hearing in this matter, KDC files ADEQ documentation demonstrating that its water system, PWS #15-029, is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

In the alternative, should the Commission decide to grant KDC's request for extension of its CC&N, Staff recommends an Order Preliminary to the issuance of a CC&N, subject to compliance with the following conditions:

1. That KDC be required to charge its authorized rates and charges in the extension area.

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<sup>1</sup> Dan and Mary Lou Cox requested water service for their two subdivisions from the Company.

2. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from La Paz County for the requested area, within 3 years of the decision granting the Order Preliminary.
3. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct for Sunshine Acres and Salome Heights subdivisions within 3 years of the effective date of the order granting the Order Preliminary.
4. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply from the Arizona Department of Water Resources ("ADWR") demonstrating the availability of adequate water for Sunshine Acres and Salome Heights subdivisions, within 3 years of the effective date of the decision granting the Order Preliminary.
5. That after KDC complies with the above requirements 2, 3, and 4, KDC shall make a filing stating so. Within 60 days of this filing, Staff shall file a response. The Commission should schedule this item for a vote to grant a CC&N as soon as possible, after Staff's filing that confirms KDC's compliance with items 2, 3, and 4.

Staff further recommends:

1. That KDC be required to file a curtailment tariff within 45 days of the effective date of the Commission's Decision in this case. The tariff shall be docketed as a compliance item under this docket number for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at [www.azcc.gov/divisions/util/forms/Curtailment-std.pdf](http://www.azcc.gov/divisions/util/forms/Curtailment-std.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.
2. That KDC be required to file with Docket Control, as a compliance item in this docket, documentation showing that the Company's water quality is in compliance with ADEQ rules, within 6 months of the effective date of the decision in this case.

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## **Introduction**

On February 13, 2007, Keaton Development Company ("KDC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in La Paz County, Arizona.

On March 9, 2007, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S. mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On April 30, 2007, and June 22, 2007, the Company provided additional documentation to support its relief requested.

On September 28, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

## **Background**

Keaton Development Company is an Arizona Corporation, in good standing with the Commission's Corporation Division, authorized to provide water utility services in the Town of Salome, La Paz County, Arizona pursuant to authority granted by the Commission in Decision Nos. 41705 (November 12, 1971), and 62729 (June 30, 2000). KDC provides service to approximately 475 customers.

According to Corporation Division's record, KDC was incorporated on April 26, 1971. On March 4, 2003, Mr. William Scott bought all the outstanding shares of common stock of the Company.<sup>2</sup> Mr. Scott is the only shareholder of KDC and the President of the Company.

According to the Company's Annual Report for the year ending December 31, 2006, the Company is serving approximately 475 customers. The Company reported an annual revenue of \$162,530, expenses of \$140,122, and a net profit of \$18,680. KDC reported \$38,881 in long-term debt as being outstanding.

By this application, KDC is seeking Commission authority to add approximately 62 acres to the Company's existing certificated area of approximately three square miles. The requested area consists of two developments, namely: Sunshine Acres and Salome Heights. The two developments are contiguous and are owned by Dan and Mary Lou Cox.<sup>3</sup> Sunshine Acres is a 37-acre parcel, consists of 37 lots, and is located north of Salome Height. While, Salome

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<sup>2</sup> See Findings Of Fact No. 3, Decision No. 67584.

<sup>3</sup> Dan and Mary Lou Cox requested water service for their two subdivisions from the Company.



Heights is a 25-acre parcel and consists of 29 lots. Altogether, these developments will have a total of approximately 66 residential units. The developments are located approximately one-half mile east of the Company's certificated area.

### **The Water System**

KDC has two active wells producing approximately 760 gallons per minute ("GPM"), one inactive well producing approximately 383 GPM (which will be put in service to serve the expansion area), three storage tanks (a 20,000 gallon tank, and two 14,000 gallon tanks), and a distribution system serving 475 connections. Staff concludes that the existing water system has adequate well production and storage capacity.

The developer will install the transmission facilities interconnecting the new subdivisions to the existing water system. Staff concludes that the proposed water system will have adequate infrastructure to serve the proposed development with 66 residential units.

The Company submitted the following estimated plant-in-service amounts for the new developments, and the developer will pay for these water facilities by advances in aid of construction through line extension agreements.

	Sunshine Acres	Salome Heights
TRENCH EXCAVATION & BACKFILL:	\$9,901.38;	32,950.00
WATER DISTRIBUTION & TRANSMISSION LINE:	\$140,698.62	72,305
TOTAL:	\$159,380	105,255

Staff has reviewed the proposed plant-in-service and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N extension application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

The Arizona Department of Environmental Quality's Certificate of Approval to Construct ("ATC") for the facilities needed to serve the requested area has not been submitted by the Company. Therefore, Staff recommends that if the Commission grants the CC&N extension, the Company file with Docket Control, as a compliance item in this docket, a copy of the ATCs for Sunshine Acres and Salome Heights subdivisions within 3 years of the effective date of the order in this proceeding.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #15-029. The ADEQ data base does not show that the required 2005 and 2006 annual

Disinfection Byproducts analysis have been done for Keaton's Water System. The Water System has one treatment plant and is required to provide one Total Trihalomethanes ("TTHM") and one Haloacetic Acids ("HAA5") analyses per year but has only provided one HAA5 analysis for 2005 and none for 2006. Therefore, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated September 20, 2007).

Staff recommends denial of the Keaton's CC&N extension application until Staff receives notice that the Company's Water System is in total compliance with ADEQ regulations.

### **Arizona Department of Water Resources ("ADWR") Compliance**

KDC is not located in any ADWR Active Management Area ("AMA") and not subject to AMA reporting and conservation requirements.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply from ADWR demonstrating the availability of adequate water for Sunshine Acres and Salome Heights subdivisions, within 3 years of the effective date of the order issued pursuant to this application.

### **ACC Compliance**

According to the Utilities Division Compliance Section, KDC has no outstanding ACC compliance issues.

### **Arsenic**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10  $\mu\text{g/l}$ . KDC reported the arsenic concentrations are 5.0  $\mu\text{g/l}$  in its existing wells. Based on these arsenic concentrations, the existing system is in compliance with the new arsenic MCL.

### **Curtailment Plan Tariff**

The Company does not have a Curtailment Plan Tariff. Therefore, Staff recommends that the Company file a curtailment tariff within 45 days of the effective date of the Commission's Decision in this matter. The tariff shall be docketed as a compliance item under this docket number for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at [www.azcc.gov/divisions/util/forms/Curtailment-std.pdf](http://www.azcc.gov/divisions/util/forms/Curtailment-std.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.

### **Proposed Rates**

KDC will provide water service to the extension area under its authorized rates and charges.

### **Franchise**

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

Staff recommends that KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from La Paz County for the requested area, within 3 years of the decision in this matter.

### **Recommendations**

Staff recommends the Commission deny KDC's application for extension of its CC&N to provide water service within portions of La Paz County, Arizona. The Company is out of compliance with the rules and regulations of ADEQ regarding monitoring and reporting. Staff believes it is not in the public interest to grant the relief requested until KDC is in compliance with ADEQ.

However, Staff will reconsider its recommendation if, by the date of the hearing in this matter, KDC files ADEQ documentation demonstrating that its water system, PWS #15-029, is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

In the alternative, should the Commission decide to grant KDC's request for extension of its CC&N, Staff recommends an Order Preliminary to the issuance of a CC&N, subject to compliance with the following conditions:

1. That KDC be required to charge its authorized rates and charges in the extension area.
2. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from La Paz County for the requested area, within 3 years of the decision granting the Order Preliminary.
3. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct for Sunshine Acres and Salome Heights subdivisions within 3 years of the effective date of the order granting the Order Preliminary.


4. That KDC be required to file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply from Arizona Department of Water Resources ("ADWR") demonstrating the availability of adequate water for Sunshine Acres and Salome Heights subdivisions, within 3 years of the effective date of the decision granting the Order Preliminary.
5. That after KDC complies with the above requirements 2, 3, and 4, KDC shall make a filing stating so. Within 60 days of this filing, Staff shall file a response. The Commission should schedule this item for a vote to grant a CC&N as soon as possible, after Staff's filing that confirms KDC's compliance with items 2, 3, and 4.

Staff further recommends:

1. That KDC be required to file a curtailment tariff within 45 days of the effective date of the Commission's Decision in this case. The tariff shall be docketed as a compliance item under this docket number for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at [www.azcc.gov/divisions/util/forms/Curtailment-std.pdf](http://www.azcc.gov/divisions/util/forms/Curtailment-std.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.
2. That KDC be required to file with Docket Control, as a compliance item in this docket, documentation showing that the Company's water quality is in compliance with ADEQ rules, within 6 months of the effective date of the decision in this case.

## MEMORANDUM

TO: Blessing Chukwu  
Executive Consultant III

FROM: Jian W. Liu   
Utilities Engineer

DATE: October 15, 2007

RE: Keaton Development Company, Inc.  
Docket No. W-02169A-07-0098 (CC&N Extension)

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### **Introduction**

Keaton Development Company, Inc. ("Keaton" or the "Company") has filed an application for a Certificate of Convenience and Necessity ("CC&N") extension. The Company is located in the Town of Salome in La Paz County, Arizona. The Company's existing CC&N has an area totaling approximately 3 square miles.

The Company is planning to develop an approximately 37-acre parcel ("Sunshine Acres, 37 lots") and an approximately 25-acre parcel ("Salome Heights, 29 lots"). These developments will have a total of approximately 66 residential units. The development is about one-half mile east of the Company's existing CC&N.

### **Existing Water System Description**

The facility consists of three wells, two active wells producing approximately 760 gallons per minute ("GPM") and one inactive well capable of producing approximately 383 GPM. The system also has three storage tanks (20,000 gallons, and two 14,000 gallons), and a distribution system serving 475 connections.

### **Capacity of Existing System**

The existing water system has adequate well production and storage capacity.

### **Proposed Water System**

The developer will install the transmission facilities interconnecting the new subdivisions to the existing water system.

Staff concludes that the proposed water system will have adequate infrastructure to serve the proposed development with 66 residential units.

### Cost Analysis

### Cost Analysis

The Company submitted the following estimated plant-in-service amounts for the new developments, and the developer will pay for these water facilities by line extension agreements.

	Sunshine Acres	Salome Heights
TRENCH EXCAVATION & BACKFILL:	\$9,901.38;	32,950.00
WATER DISTRIBUTION & TRANSMISSION LINE:	\$140,698.62	72,305
TOTAL:	\$159,380	105,255

Staff has reviewed the proposed plant-in-service and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N extension application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #15-029. The ADEQ data base does not show that the required 2005, 2006 annual Disinfection Byproducts analysis have been done for Keaton's Water System. The Water System has one treatment plant and is required to provide one Total Trihalomethanes ("TTHM") and one Haloacetic Acids ("HAA5") analyses per year but has only provided one HAA5 analysis for 2005 and none for 2006. Therefore, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated September 20, 2007).

Staff recommends denial of the Keaton's CC&N extension application until the Staff receives notice that the Company's Water System is in total compliance with ADEQ regulations.

### Certificate of Approval to Construct

The Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of the proposed water facilities. Staff recommends that if the Commission grants the CC&N, the Company file with Docket Control, as a compliance item in this docket, a copy of the ATCs for the new subdivisions within 3 years of the effective date of the order granting this application.

### Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") to 10µg/l.

Keaton reported the arsenic concentrations are 5.0 µg/l in its existing wells. Based on these arsenic concentrations, the existing system is in compliance with the new arsenic MCL.

### **Arizona Department of Water Resources ("ADWR") Compliance**

#### Compliance Status

Keaton is not located in any ADWR Active Management Area ("AMA") and not subject to AMA reporting and conservation requirements.

#### Analysis of Adequate Water Supply

Staff recommends that if the Commission grants the CC&N, the Company docket as a compliance item in this docket within 3 years of the effective date of an order granting this application, a copy of the Analysis of Adequate Water Supply from ADWR for the requested area.

### **Arizona Corporation Commission ("ACC") Compliance**

According to the Utilities Division Compliance Section, the Company has no outstanding compliance issues.

#### Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have this type of tariff, this proceeding provides an opportune time to prepare and file such a tariff.

Staff recommends that the Company file curtailment tariff in the form found on the Commission's website at <http://www.azcc.gov/divisions/utilities/forms/Curtailment-Std.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

### **Summary**

#### Conclusions

- A. The existing water system has adequate production and storage capacity.
- B. Based on the Company's arsenic concentration, the existing water system is in compliance with the new arsenic MCL.

- C. Keaton is not located in any ADWR Active Management Area and not subject to AMA reporting and conservation requirements.


Recommendations


1. Staff recommends denial of the Keaton's CC&N extension application until the Staff receives notice that the Company's Water System is in total compliance with ADEQ regulations.
2. Staff recommends that if the Commission grants the CC&N, the Company docket as a compliance item in this docket within 3 years of the effective date of an order granting this application, a copy of the Analysis of Adequate Water Supply from ADWR for the requested area.
3. The Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of the proposed water facilities. Staff recommends that if the Commission grants the CC&N, the Company file with Docket Control, as a compliance item in this docket, a copy of the ATCs for the new subdivisions within 3 years of the effective date of the order granting this application.
4. Staff recommends that the Company file a curtailment tariff in the form found on the Commission's website at <http://www.azcc.gov/divisions/utilities/forms/Curtailment-Std.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.



**MEMORANDUM**

TO: Blessing Chukwu  
Executive Consultant III  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: May 10, 2007

RE: **KEATON DEVELOPMENT COMPANY (DOCKET NO. W-02169A-07-0098)**  
**REVISED LEGAL DESCRIPTION**

The extension area originally requested by Keaton has been revised to include additional area. The revised legal description has been docketed and plotted with no complications. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

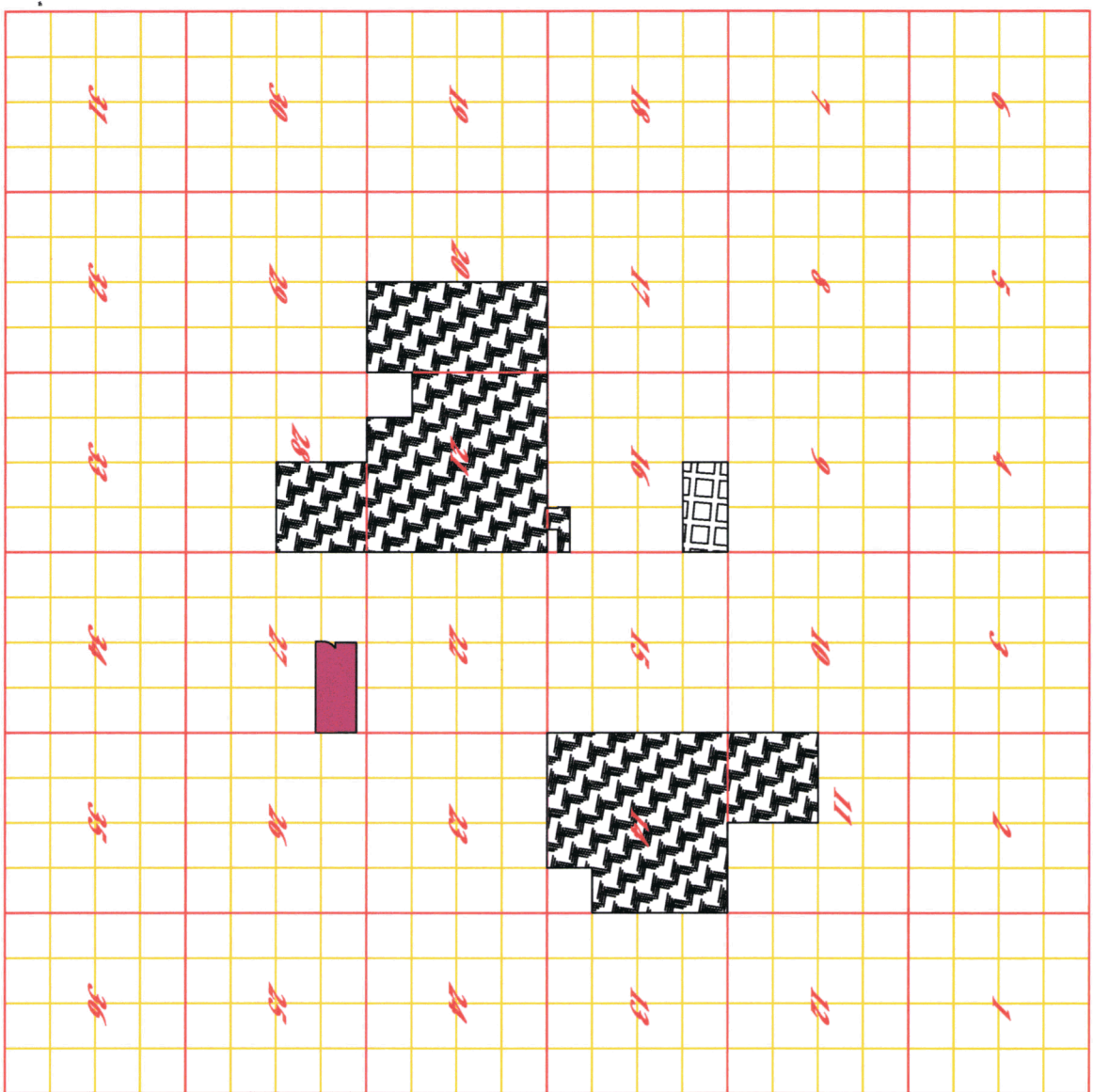
:bsw

Attachments

cc: Mr. Richard Sallquist  
Ms. Deb Person (Hand Carried)  
File

# COUNTY La Paz

## RANGE 13 West



## TOWNSHIP 5 North



W-2169 (1)



Keaton Development Company



W-1084 (1)

Salome Water Company



Keaton Development Company  
Docket No. W-02169A-07-0098  
Amended Application for Extension

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## SUNSHINE ACRES

The South 613.77 feet of the North 913.77 feet of the  
Northeast Quarter of Section 27, Township 5 North, Range  
13 West of the G&SRB&M, La Paz, Arizona

## SALOME HEIGHTS

### PARCEL DESCRIPTION

That parcel of land situated in the NE 1/4 of Section 27, Township 5 North, Range 13 West, Gila & Salt River Meridian, La Paz County, Arizona, and being more particularly described as follows:

Commencing for reference at the Northeast corner of said Section 27;  
Thence S0°05'59"E along the East line of said Section 27 a distance of  
912.85 feet to a point on the centerline of Palm Boulevard, said point  
also being the POINT OF BEGINNING;

Thence N89°57'55"W along the centerline of said Palm Boulevard a distance of 2135.18 feet to the beginning of a curve to the right, concave to the Northeast, having a radius of 300.00 feet and a central angle of 43°40'49";

Thence Northwest along said curve an arc distance of 228.71 feet, said arc also being the centerline of said Palm Boulevard;

Thence N46°17'06"W along the centerline of said Palm Boulevard a distance of 47.20 feet to the intersection of Palm Boulevard and Mesquite Avenue;

Thence S43°42'54"W along the centerline of said Mesquite Avenue a distance of 299.90 feet to the beginning of a curve to the left, concave to the Southeast, with a radius of 300.00 feet and a central angle of 43°37'15";

Thence Southwest along said curve an arc distance of 228.40 feet, said arc also being the centerline of said Mesquite Avenue;

Thence S0°05'39"W along the centerline of said Mesquite Avenue a distance of 265.87 feet to the intersection of Mesquite Avenue and Cactus Street;

Thence S89°57'55"E along the centerline of said Cactus Street a distance of 2668.28 feet to a point on the East line of said Section 27;

Thence N0°05'59"W along the East line of said Section 27 a distance of 574.00 feet to the POINT OF BEGINNING.

Containing 37.05 acres, more or less.